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COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

June 9, 2008

Roger Weaver, Director
Fleet Management Department
210 North Lena Road
San Bernardino, CA 92415

**SUBJECT: FLEET MANAGEMENT DEPARTMENT INVENTORY FOR THE FISCAL
YEAR ENDED JUNE 30, 2008**

Introductory Remarks

In accordance with the Auditor/Controller's Year-end Closing Manual, Fleet Management personnel conducted an inventory of their storerooms and fuel reserves. We observed the storerooms' parts inventory and the fuel reserves inventory on June 25, 2008, and have reported on the inventory valuation below.

Scope of the Audit

We audited the inventory procedures and controls in effect over the June 25, 2008 Fleet Management Department's (Department) parts and fuel inventory. Our audit was made in accordance with generally accepted auditing standards and included such tests of the records and other audit procedures we considered necessary in the circumstances. The audit work performed during the audit would not necessarily disclose all material weaknesses in the system of internal controls.

Audit Results

In our opinion, computed using the average inventory cost method, the following is a fair valuation of Fleet Management's Warehouse – Garage inventory:

As of June 30, 2008
\$613,043

Furthermore, using the average cost method, the following is a fair valuation of Fleet Management's fuel inventory:

As of June 30, 2008
\$767,641

During our testing of inventory procedures and controls, we became aware of several matters that we consider opportunities for strengthening internal control and operating efficiency.

AUDITING FINDINGS AND RECOMMENDATIONS

Audit Finding #1 Organization and storage of the parts inventory needs to be improved.

Good internal controls is demonstrated by having items of inventory well organized, identified, and separated from non-inventory items so that the department can accurately account for inventory on hand.

The Parts Division personnel did not properly label and segregate expendable items from other inventory items.

The Parts Division supervisor prefers to keep expendable items with regular inventory so they can be easily accessed by shop personnel. Disorganization of an inventory storeroom may lead to delays in repairs, ordering items that are not needed, misstated inventory records, and an inability to detect theft. Also, there may be a loss of revenue to the department as inventory is priced using the average cost method, so if stock quantities are not removed from inventory records timely, then these quantities are averaged with the new stock which brings down the price average for the part.

Recommendation

Management should draft written procedures to require separation and labeling of expendable inventory on a timely basis. We further recommend that management ensure that department personnel are adhering to these procedures by routinely monitoring these practices.

Management's Response

The Parts Supervisor is in the process of drafting procedures and moving the expendables to a different location separate from stock items. The Heavy Duty Fleet Superintendent will monitor department personnel to ensure the new procedures are being adhered.

Auditor's Response

Management's response addresses planned actions to correct deficiencies noted in the audit finding.

Audit Finding #2 **The safeguarding of the department's inventory needs to be improved, and written policies and procedures need to be established.**

Effective safeguarding of assets requires the enforcement and monitoring of internal controls over security measures in place to provide an adequate safeguard of inventory. Written policies and procedures regarding segregation of duties will promote a strong internal control environment.

During the course of the audit, the following internal control weaknesses were noted:

- An oil tank was stored in the heavy equipment shop and connected to the oil pump and not secured in the locked oil cage.
- The fuel pump at the Yucaipa Regional site was not locked.
- The Manual Fuel Tracking System does not prevent employees from dispensing fuel for personal use.

The factors that contributed to the weaknesses in the department's operations included:

- The Equipment Parts Specialist is not returning the oil tanks to the oil cages after the shop employee has extracted the amount needed to complete a job ticket.
- The department did not have written policies and procedures specifically related to the security and safeguarding of the fuel inventory.

Inadequate safeguarding of inventory potentially exposes the inventory to unauthorized use or theft. In addition, the absence of written policies and procedures that specifically define how to secure and safeguard the department's assets will result in weaknesses in internal controls.

Recommendation

Management needs to secure the oil tanks in the designated oil cages after the department personnel have extracted the necessary amount to complete a job ticket. Securing the oil tanks in the oil cages would serve to lessen the risk of any unauthorized use or theft. Additionally, written policies and procedures regarding the segregation of duties should be established and incorporated into the department's policies and procedures manual.

Management's Response

Oil Tanks - Fleet Management no longer uses 55 gallon drums to store/distribute oil (as were referenced in the Findings/Recommendations). We now use bulk tanks (110-500 gallons). This is the industry standard for storing and distributing oils. The bulk oil tanks are placed in the most strategic area's in the shop to allow for the efficient operation of servicing heavy equipment. It is not practical to move these larger tanks after each use.

Oil usage is monitored by the shop supervisor on work-orders and oil tank inventories are performed weekly. We agree there are a small possibility of lost inventory and/or theft of a small amount of motor oil. However, the dispensing process and accounting used in our shops are "industry standard" and an "acceptable business risk" when compared to the lost productivity of increased security.

Fuel – Fueling procedures were adopted in April 2004 and distributed/posted in May 2007 for safeguarding fuel inventories (see attached copy). The procedures clearly state that a user/driver should unlock the dispenser to begin fueling and to relock upon completion. The security lapse noted above occurred at the Yucaipa Regional Park – well beyond our control and responsibility of Fleet Management. And, while this particular site is generally only used by Park personnel, the lapse of security (leaving the lock off the pump) could have been done by any county user/driver.

There are three different people involved in the fuel ordering, billing and inventory management to minimize the risk of unauthorized use or theft. A written policy will be adopted and added to the department policy manual.

Auditor's Response

Management's response addresses actions that have been implemented, as well as planned actions to correct deficiencies noted in the audit finding.

Audit Finding #3 Department personnel are not accurately recording oil usage.

Oil usage must be properly recorded to maintain the accuracy of the inventory records.

Department personnel working in the auto shop were overstating the amount of oil being used on each job ticket, which resulted in discrepancies in the inventory records. Management is aware is of the current method of recording the oil usage on the job tickets, but has not taken any corrective measures to remedy the improper recording method. Maintaining inaccurate inventory records may increase the likelihood of losses due to theft.

Recommendation

Management needs to implement policies and procedures describing the proper method of recording the oil used to complete job assignments. The newly implemented policies and procedures should allow management to maintain more accurate inventory records. Furthermore, management should adequately monitor the oil used by department personnel by comparing the usage on the job tickets with inventory records.

Management's Response

Management agrees there will be discrepancies in oil inventory levels due to the nature of the business; vehicle oil capacities are not exact, even in the same year, make and model. As is the "industry standard," this is an acceptable business risk within Fleet Management.

Although the shops makes every effort to record actual quantities used per vehicle, there are occurrences where vehicles require partial quantities (less than a quart) to bring oil levels up to their required levels. In these cases we round up to the nearest quart. This can (and does) create discrepancies in our inventories.

The Auto Shop performed 5,040 oil changes in fiscal year 2007-2008 and the oil inventory was overstated by 123 quarts. This equates to a discrepancy of .024 quart for each oil change performed.

Auditor's Response

Management's response indicates that there will continue to be discrepancies due to the nature of the business. We understand that the discrepancies should remain within an acceptable range.

We would like to express our appreciation for the cooperation and assistance provided to the auditor by the management and staff of the Fleet Management Department.

Respectfully submitted,

LARRY WALKER
Auditor/Controller-Recorder

By:

HOWARD M. OCHI, CPA
Chief Deputy Auditor

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